INTERIM REPORT Q3 2006

JULY 1 – SEPTEMBER 30, 2006

LANXESS
Energizing Chemistry

Key Data	Q3 2005	Q3 2006	Change	9M 2005	9M 2006 [2]	Change
€ million			in %			in %
Sales	1,776	1,691	(4.8)	5,364	5,278	(1.6)
EBITDA pre exceptionals	148	164	10.8	492	570	15.9
EBITDA margin pre exceptionals	8.3%	9.7%		9.2%	10.8%	
EBITDA	15	148	*	356	525	47.5
Operating result (EBIT) pre exceptionals	88	102	15.9	309	383	23.9
Operating result (EBIT)	(54)	85		139	337	*
EBIT margin	(3.0%)	5.0%		2.6%	6.4%	
Net income (loss)	(57)	36		37	195	*
Earnings per share (€)	(0.67)	0.43		0.44	2.31	*
Cash flow from operating activities	238	149	(37.4)	358	246	(31.3)
Depreciation and amortization	69	63	(8.7)	217	188	(13.4)
Capital expenditures	52	66	26.9	151	147	(2.6)
Total assets				4,341 [1]	4,224	(2.7)
Equity (including minority interest)				1,256 [1]	1,433	14.1
Equity ratio				28.9% [1]	33.9%	
Pension provisions				497 [1]	513	3.2
Net financial liabilities				680 [1]	503	(26.0)
Number of employees (September 30)				18,282 [1]	16,893	(7.6)

* change of more than 100%
[1] as of December 31, 2005
[2] The Fibers business unit in the Engineering Plastics segment and the Paper business unit in the Performance Chemicals segment were divested effective February 28, 2006 and March 31, 2006, respectively. The sales and earnings of these business units up to the respective dates of divestment are reflected in the consolidated interim financial statements.

Q3 2006 Events in Brief	
July 12	LANXESS inaugurates the hydrazine hydrate facility in Weifang, China.
August 16	LANXESS announces its Q2 2006 results and narrows earnings guidance for the full year 2006, forecasting EBITDA pre exceptionals of €660 million to €680 million.
August 30	LANXESS further repositions the Styrenic Resins business unit, which now trades under the name Lustran Polymers.
September 14/15	At its first investor conference and media day, LANXESS outlines its ongoing corporate strategy and announces new targets for 2009 (see also page 2).
September 19	Rating agency Standard & Poor's revises its outlook on LANXESS to "stable," while maintaining a BBB- investment grade rating, citing the possibility that in pursuing the strategy outlined at the investor conference LANXESS might use available funds not only to repay debt but to make acquisitions.
September 22	An international bank consortium extends LANXESS's existing €1.25 billion credit line by one year to 2011 on the same conditions.
September 27	LANXESS dedicates the new European headquarters of its Lustran Polymers (formerly Styrenic Resins) business unit in Tarragona, Spain.

More information on these topics is provided under "Investor Relations" at www.lanxess.com

LANXESS STOCK

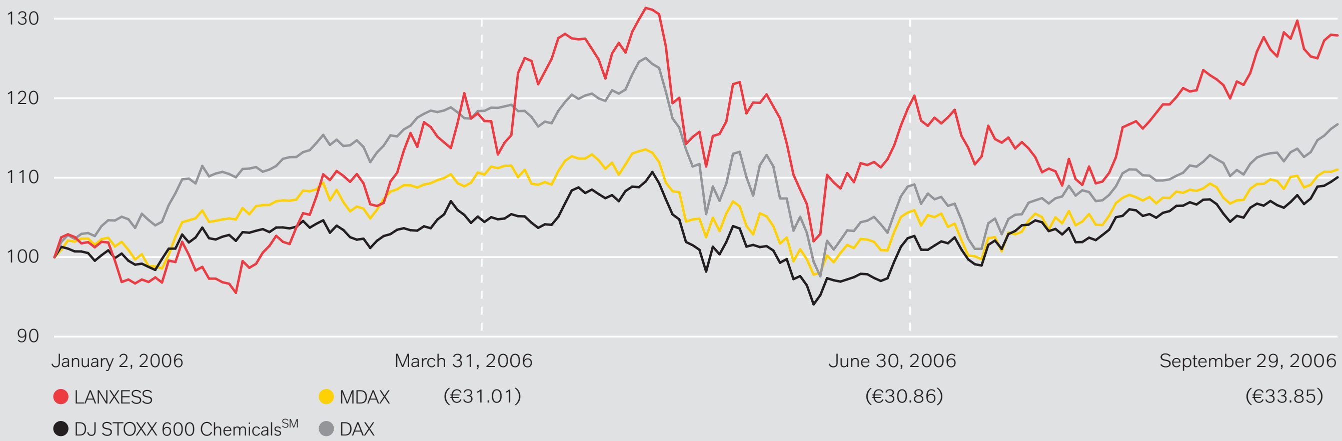
LANXESS Stock LANXESS stock performed well overall in the third quarter of 2006, closing on September 29 at €33.85, up 9.7% from the end of the second quarter. The high price for the period was €34.61 and the low was €28.51.

At the beginning of the reporting period, the conflict in the Middle East and the uncertainty over further U.S. interest rate hikes led to considerable volatility on global stock markets. This volatility was reflected in the performance of LANXESS stock, which dipped below €30 at the end of July. From mid-August onward, LANXESS stock benefited from positive factors and showed a clear upward trend, again climbing to well over €30. The announcement of LANXESS's Q2 results and the narrowing of the earnings forecast for the current fiscal year on August 16, 2006 had a positive effect on the stock price. In September, LANXESS's first investor conference and media day provided further impetus for a gratifying appreciation of the stock. Among the purposes of this conference was to inform the capital market about the LANXESS Group's targets up to 2009 and the ongoing development of LANXESS's strategy, including the question of possible acquisitions. Apart from this news specific to LANXESS, the tangible improvement in the market environment also supported the stock price. From mid-August onward, market trends were significantly more favorable, due in part to the easing of the conflict in the Middle East, a drop in energy and raw material prices toward the end of the quarter, and an unchanged U.S. discount rate. Germany's blue-chip index, the DAX, rose by 5.6% during the reporting period, to 6,004 points. The selective index MDAX climbed from 7,887 points to 8,547 points (+8.4%). The DJ STOXX 600 Chemicals[SM]* index also benefited from the market upturn and was up 8.6% to 372.80 points at the close on September 29, 2006.

Economic data as indicators of stock market sentiment generally remained positive in the third quarter. According to the results of the ifo Business Survey, Germany's leading business climate index, German companies are satisfied with the current business environment, which they rated "very good" in September. Results of the ifo World Economic Survey were similar, with companies in western Europe, North America and Asia describing the situation as "good."

* The Dow Jones STOXX 600 Chemicals[SM] represents the chemicals-sector companies that are included in a larger index covering the 600 largest European enterprises in 18 different industries.

Stock Performance in %



LANXESS Stock		Year 2005	Q1 2006	Q2 2006	Q3 2006
Capital stock/no. of shares [1]	€/no. of shares	84,620,670	84,620,670	84,620,670	84,620,670
Market capitalization [1]	€ billion	2.28	2.62	2.61	2.86
High/low for the period	€	27.65/13.63	32.65/24.67	35.00/26.46	34.61/28.51
Closing price [1]	€	26.96	31.01	30.86	33.85
Trading volume	million shares	141.143	33.086	33.075	29.248
Earnings per share	€	(0.75)	0.97	0.91	0.43

[1] as of December 31, 2005, March 31, 2006, June 30, 2006 and September 30, 2006 respectively

BUSINESS DEVELOPMENT IN THE THIRD QUARTER OF 2006

Strategy and Targets

At its investor conference and media day in the third quarter of 2006, the LANXESS Group announced new corporate objectives concerning its future strategic focus and earnings development.

Strategy: In light of the systematic and successful implementation of the first three stages of its four-stage package of strategy measures, the LANXESS Group is now considering acquisitions as a possible route to external growth, thereby initiating the fourth stage of the strategy. Acquisitions will only be made if they offer tangible increases in corporate value and profitability. The sustained stabilization and reinforcement of LANXESS's financial position and results of operations give it the necessary financial headroom for acquisitions. LANXESS's declared goal is to retain its investment grade rating.

Earnings targets: By 2009 LANXESS aims to generate an EBITDA margin pre exceptionals equal to the average of its competitors, which in 2005 was between 12% and 14%. For 2009 clear profitability targets have also been set for the business units. All of LANXESS's business units will be expected to achieve an EBITDA margin pre exceptionals of at least 5% by then.

The investor conference and media day presentations are available for download at www.lanxess.com/Investor Relations or www.lanxess.com/Press.

LANXESS Group Highlights

- Sales show year-on-year gain after adjusting for portfolio and currency effects
- EBITDA pre exceptionals up 10.8%
- EBITDA margin rises to 9.7%, from 8.3% in prior-year quarter
- Systematic restructuring continues
- Net financial debt further reduced to €503 million
- Outlook for 2006 confirmed: EBITDA pre exceptionals between €660 million and €680 million

Economic environment The generally favorable economic environment persisted in the third quarter of 2006. The world economy continued to grow steadily, if somewhat more slowly than in previous quarters. The most rapid expansion again took place in the Asia-Pacific region, while growth in North America receded. The German economy remained robust, with the chemical industry benefiting from an increase in domestic demand as well as higher exports. German chemical industry output in the first nine months of 2006 rose 3.5% from the prior-year period.

Sales Business continued to develop favorably in the third quarter of 2006, with LANXESS Group sales amounting to €1,691 million. The year-on-year decline of 4.8%, from €1,776 million in Q3 2005, was due entirely to portfolio changes and negative currency effects, particularly relating to the U.S. dollar. Adjusted for the divestments of the Fibers and Paper business units and the RheinChemie subsidiary iSL-Chemie, along with the adverse shifts in exchange rates, LANXESS Group sales rose by 2.1%. Positive price effects of 4.8% more than offset a 2.7% decline in volumes.

Effects on sales	Q3 2006
Approximate data	in %
Price	4.8
Volume	(2.7)
Currency	(2.3)
Portfolio	(4.6)
	(4.8)

Against the backdrop of a further rise in raw material and energy prices during the quarter and stable demand, the LANXESS Group was able to raise prices in major areas of activity. The "price before volume" strategy was consistently pursued. The Performance Rubber and Chemical Intermediates segments achieved higher sales, while Engineering Plastics and Performance Chemicals registered declines due to portfolio and currency effects. Adjusted for these effects, however, sales of the Performance Chemicals segment increased.

Sales by segment	Q3 2005	Q3 2006	Change	Proportion of Group sales	9M 2005	9M 2006	Change	Proportion of Group sales
	€ million	€ million	in %	in %	€ million	€ million	in %	in %
Performance Rubber	414	450	8.7	26.6	1,238	1,336	7.9	25.3
Engineering Plastics	441	411	(6.8)	24.3	1,303	1,292	(0.8)	24.5
Chemical Intermediates	373	374	0.3	22.1	1,168	1,163	(0.4)	22.0
Performance Chemicals	489	428	(12.5)	25.3	1,478	1,401	(5.2)	26.5

The sales trend in Germany was particularly encouraging, buoyed by the positive economic climate. Adjusted for portfolio and currency effects, business in the Americas and the Asia-Pacific region also improved from the previous year. As in the preceding quarter, sales in the EMEA region (excluding Germany) did not match the high level of the prior-year period.

Gross profit The cost of sales dropped by 5.1% from the prior-year quarter, to €1,329 million, thanks to portfolio adjustments and efficiency improvements. Gross profit dipped by 3.7% to €362 million. The gross profit margin edged up from 21.2% to 21.4%. The segments succeeded to varying degrees in passing along the further sharp rises in raw material and energy prices to the market. Productivity improvements were instrumental in boosting earnings, especially where stiff competition prevented these cost increases from being passed along in full. As in the second quarter, the divestment of the underperforming Fibers and Paper business units, combined with the success of the extensive restructuring carried out in fiscal 2005 and 2006, had a positive impact on gross profit.

EBITDA pre exceptionals	Q3 2005	Q3 2006	Change	9M 2005	9M 2006	Change
	€ million	€ million	in %	€ million	€ million	in %
Performance Rubber	39	53	35.9	165	186	12.7
Engineering Plastics	14	25	78.6	63	81	28.6
Chemical Intermediates	55	64	16.4	179	210	17.3
Performance Chemicals	57	48	(15.8)	173	187	8.1

EBITDA and EBIT LANXESS increased its operating result before depreciation and amortization (EBITDA) pre exceptionals by 10.8% from the prior-year quarter, to €164 million. The third-quarter EBITDA margin pre exceptionals rose by 1.4 percentage points to 9.7% despite the fact that earnings in the second half of the year are traditionally weaker.

Nearly all segments of the LANXESS Group attained good growth in margins and earnings. Only the Performance Chemicals segment saw EBITDA decline, due partly to the absence of sales and earnings contributions from the divested iSL business and a smaller contribution from the Rubber Chemicals business unit. Even in this segment, however, margins remained steady at the level of the previous year. Cost savings were achieved throughout the LANXESS Group. While partly the result of portfolio adjustments, this was mainly due to the success of restructuring packages I through III. The implementation of these efficiency improvement programs continues to proceed on schedule. Their full benefits will become apparent in 2008 and 2009.

The operating result (EBIT) in the third quarter of 2006 was hampered by exceptional items of €17 million. These mainly comprised additional expenses for restructuring and portfolio adjustments. Further details are given in the commentary on the Corporate Center, Services, Non-Core Business, Reconciliation segment (page 8). In the prior-year quarter, EBIT was held back by €132 million in restructuring charges, €5 million in impairment charges on property, plant and equipment, and €5 million in expenses incurred in connection with antitrust investigations in the Performance Rubber and Performance Chemicals segments.

Financial result The financial result of minus €26 million was virtually unchanged from the prior-period figure of minus €25 million. The net interest position improved, while the balance of exchange gains and losses deteriorated.

Income before income taxes Income before income taxes for the third quarter of 2006 came to €59 million, a significant improvement from the €79 million loss recorded for the prior-year period in the wake of high restructuring charges. Tax expense amounted to €21 million, compared with the tax income of €31 million for Q3 2005 occasioned by negative earnings. The effective tax rate in Q3 2006 was 35.6%.

Net income and earnings per share The LANXESS Group posted net income of €36 million, compared with a €57 million net loss for the prior-year period. Income attributable to minority interests was €2 million (Q3 2005: minus €9 million). With the number of shares unchanged at 84,620,670, earnings per share in the third quarter of 2006 amounted to €0.43 (Q3 2005: minus €0.67).

Business Trends by Region

Sales by market	Q3 2005		Q3 2006		Change	9M 2005		9M 2006		Change
	€ million	% of total sales	€ million	% of total sales	in %	€ million	% of total sales	€ million	% of total sales	in %
EMEA (excluding Germany)	578	32.6	528	31.2	(8.7)	1,878	35.0	1,731	32.8	(7.8)
Germany	382	21.5	400	23.7	4.7	1,172	21.8	1,228	23.3	4.8
Americas	494	27.8	445	26.3	(9.9)	1,447	27.0	1,397	26.4	(3.5)
Asia-Pacific	322	18.1	318	18.8	(1.2)	867	16.2	922	17.5	6.3
	1,776	**100.0**	**1,691**	**100.0**	**(4.8)**	**5,364**	**100.0**	**5,278**	**100.0**	**(1.6)**

In the EMEA region (Europe [except Germany], Middle East, Africa), LANXESS Group sales fell by 8.7% to €528 million. Adjusted for portfolio changes and currency effects, sales declined by 4.0%. The Chemical Intermediates and Performance Chemicals segments saw business expand, while sales in the other segments were below the prior-year period. Markets in eastern Europe and Africa displayed upward trends, while LANXESS's sales in some western European countries did not match the third quarter of 2005. The EMEA region accounted for 31.2% of total sales, against 32.6% in the prior-year quarter.

In Germany, LANXESS saw sales advance by 4.7% in the third quarter of 2006, to €400 million. Adjusted for portfolio changes, business was up by 8.2%. Sales in the Performance Rubber, Engineering Plastics and Chemical Intermediates segments rose by double-digit percentages. Despite the divestments of iSL-Chemie and the Paper business unit, sales of the Performance Chemicals segment showed a slight increase from the previous year. Germany accounted for 23.7% of total sales, compared with 21.5% in the third quarter of 2005.

In the Americas region, LANXESS reported a 9.9% decline in sales, to €445 million, due mainly to portfolio adjustments and currency effects. Adjusted for these effects, sales edged up 1.1%. While business in the Performance Rubber segment expanded, sales in the other segments were below the levels of the prior-year quarter. In North America sales almost matched the previous year, while good growth rates were recorded in Latin America. The region's share of Group sales declined from 27.8% to 26.3%.

Sales in Asia-Pacific were €318 million, down just 1.2% from the prior-year quarter. After adjusting for currency effects and the divested businesses' sales in the prior-year period, there was a 2.7% increase. Business expanded in the Performance Rubber and Chemical Intermediates segments, with Performance Rubber again reporting above-average gains. Sales were diminished by the withdrawal from agency business. This region accounted for 18.8% of total Group sales, compared with 18.1% in the same period of 2005.

Segment Information

Performance Rubber	Q3 2005		Q3 2006		Change	9M 2005		9M 2006		Change
	€ million	in % of sales	€ million	in % of sales	in %	€ million	in % of sales	€ million	in % of sales	in %
Sales	414		450		8.7	1,238		1,336		7.9
EBITDA pre exceptionals	39	9.4	53	11.8	35.9	165	13.3	186	13.9	12.7
EBITDA	35	8.5	53	11.8	51.4	159	12.8	185	13.8	16.4
Operating result (EBIT) pre exceptionals	22	5.3	36	8.0	63.6	117	9.5	136	10.2	16.2
Operating result (EBIT)	18	4.3	36	8.0	100.0	111	9.0	135	10.1	21.6
Capital expenditures*	15		22		46.7	39		47		20.5
Depreciation and amortization	17		17		0.0	48		50		4.2

* intangible assets and property, plant and equipment

Third-quarter sales in the **Performance Rubber** segment advanced by 8.7% in the third quarter of 2006 to €450 million, from €414 million in the prior-year quarter. Further increases in the price of petrochemical feedstocks and energy were passed along to the market in the form of price increases in all of this segment's business units. As a result, the segment registered a price-driven sales increase of 11.6%, though this was partially offset by a 3.1% negative currency effect. Volumes were steady, increasing by just 0.2% from the previous year. High customer inventories, particularly for products of the Butyl Rubber business unit, prevented additional volume growth. The Polybutadiene Rubber business unit reported good increases in prices and volumes compared to the rather weak prior-year quarter, leading to a substantial rise in sales to which market growth in Asia and South America was the main contributor. Price increases in the Technical Rubber Products business unit more than compensated for slight volume declines and negative currency effects.

The Performance Rubber segment's EBITDA pre exceptionals increased by 35.9% to €53 million, with the Butyl Rubber and Technical Rubber Products business units benefiting from price increases and improved cost structures across all functions. In the Polybutadiene Rubber business unit, action to raise efficiency at the U.S. site in Orange, Texas, also had a positive effect. The EBITDA margin pre exceptionals for the segment as a whole rose by 2.4 percentage points to 11.8%.

The €4 million in exceptional items in the prior-year quarter pertained entirely to costs associated with the settlement of antitrust investigations in the Technical Rubber Products business unit.

Engineering Plastics	Q3 2005		Q3 2006		Change	9M 2005		9M 2006		Change
	€ million	in % of sales	€ million	in % of sales	in %	€ million	in % of sales	€ million	in % of sales	in %
Sales	441		411		(6.8)	1,303		1,292		(0.8)
EBITDA pre exceptionals	14	3.2	25	6.1	78.6	63	4.8	81	6.3	28.6
EBITDA	14	3.2	25	6.1	78.6	63	4.8	81	6.3	28.6
Operating result (EBIT) pre exceptionals	6	1.4	17	4.1	**	38	2.9	57	4.4	50.0
Operating result (EBIT)	3	0.7	17	4.1	**	21	1.6	57	4.4	**
Capital expenditures*	7		16		**	21		31		47.6
Depreciation and amortization	11		8		(27.3)	42		24		(42.9)

* intangible assets and property, plant and equipment
** change of more than 100%

In the **Engineering Plastics** segment, sales declined by 6.8% to €411 million in the third quarter of 2006 due to portfolio adjustments and currency effects. Adjusted for currency effects and the contribution of the Fibers business unit, which was divested in the first quarter of 2006, sales were 0.5% below the prior-year period. This decline was due to a 7.5% drop in volumes. Higher selling prices had a 7.0% positive effect.

Price increases in the Lustran Polymers (formerly Styrenic Resins) business unit were offset by lower sales volumes in Europe. This was due to the relocation of major parts of the European specialty plastics manufacturing operations from Dormagen, Germany, to Tarragona, Spain. Starting in August 2006, the business unit was also adversely affected by production limitations caused by a fire at the Tarragona site. Volume growth for ABS plastics in the Asia-Pacific region had a positive impact on sales. The Lustran Polymers business unit completed the divestment of the SAN plastics business to the BASF Group that had been announced in the second quarter, thereby sharpening the focus on its core competencies. In the Semi-Crystalline Products business unit, price increases led to higher sales and offset the increased cost of cyclohexane.

EBITDA pre exceptionals improved from €14 million to €25 million. Thanks to price increases, the Lustran Polymers business unit was able to mitigate the effects of higher raw material and energy prices. Consolidation of the European and South American sites is proceeding as planned. In addition, cost savings were achieved as a result of the restructuring measures initiated. Margins and earnings in the Semi-Crystalline Products business unit rose disproportionately thanks to higher sales of plastics compounds. The increases in raw material and energy costs were passed along in the market and did not affect earnings. Segment earnings were further improved by the divestment of the loss-making Fibers business. The EBITDA margin pre exceptionals rose by 2.9 percentage points to 6.1%.

The exceptional items in the prior-year period comprised impairment charges of €3 million in the Lustran Polymers business unit.

Chemical Intermediates	Q3 2005		Q3 2006		Change		9M 2005		9M 2006		Change
	€ million	in % of sales	€ million	in % of sales	in %		€ million	in % of sales	€ million	in % of sales	in %
Sales	373		374		0.3		1,168		1,163		(0.4)
EBITDA pre exceptionals	55	14.7	64	17.1	16.4		179	15.3	210	18.1	17.3
EBITDA	55	14.7	64	17.1	16.4		179	15.3	210	18.1	17.3
Operating result (EBIT) pre exceptionals	41	11.0	48	12.8	17.1		131	11.2	162	13.9	23.7
Operating result (EBIT)	39	10.5	48	12.8	23.1		120	10.3	162	13.9	35.0
Capital expenditures*	10		11		10.0		37		28		(24.3)
Depreciation and amortization	16		16		0.0		59		48		(18.6)

* intangible assets and property, plant and equipment

Sales in the **Chemical Intermediates** segment in the third quarter of 2006 remained approximately at last year's level, increasing by just 0.3% to €374 million. A positive price effect of 2.4% offset the negative volume and currency effects of 0.8% and 1.3%, respectively. The Basic Chemicals business unit succeeded in raising prices, particularly for benzene- and toluene-based products. Volumes here and in the Saltigo business unit were down slightly due to the weakness of the market for agricultural intermediates. This in turn was mainly attributable to dry weather and the related drop in fungicide demand already experienced in the previous quarter. Demand for pharmaceutical intermediates and active ingredients, however, increased. The Inorganic Pigments business unit built on the strong performance of the prior-year quarter, successfully raising selling prices while volumes remained high. There was strong demand from the construction industry, and sales of specialty iron oxides developed particularly well.

EBITDA pre exceptionals of the Chemical Intermediates segment increased by 16.4% to €64 million. The Basic Chemicals business unit succeeded in passing along part of the increase in raw material prices. The Saltigo business unit reduced fixed costs across all functions thanks to the implementation of the restructuring measures initiated last year. This significantly improved earnings on sales that were slightly ahead of the prior-year quarter. The Inorganic Pigments business unit succeeded in passing along the increases in its raw material costs, enabling the year-on-year efficiency improvements to benefit earnings once again. The segment's EBITDA margin pre exceptionals rose by 2.4 percentage points to 17.1%.

EBIT in the prior-year period was impacted by impairment charges of €2 million in the Saltigo business unit.

Performance Chemicals	Q3 2005		Q3 2006		Change	9M 2005		9M 2006		Change
	€ million	in % of sales	€ million	in % of sales	in %	€ million	in % of sales	€ million	in % of sales	in %
Sales	489		428		(12.5)	1,478		1,401		(5.2)
EBITDA pre exceptionals	57	11.7	48	11.2	(15.8)	173	11.7	187	13.3	8.1
EBITDA	56	11.5	48	11.2	(14.3)	171	11.6	186	13.3	8.8
Operating result (EBIT) pre exceptionals	39	8.0	34	7.9	(12.8)	124	8.4	142	10.1	14.5
Operating result (EBIT)	38	7.8	34	7.9	(10.5)	122	8.3	141	10.1	15.6
Capital expenditures*	19		11		(42.1)	45		34		(24.4)
Depreciation and amortization	18		14		(22.2)	49		45		(8.2)

* intangible assets and property, plant and equipment

Sales in the **Performance Chemicals** segment shrank by 12.5% from the prior-year period, to €428 million, due to portfolio and currency effects. Adjusted for currency effects and the divestments of the Paper business unit and the RheinChemie subsidiary iSL-Chemie, sales rose by 3.0%. Whereas prices showed a slight decline of 0.2% from the previous year, volumes were up by 3.2%. The Leather business unit raised prices against the background of high demand for tanning materials. Volume growth was reported primarily by the Functional Chemicals and Material Protection Products business units, the latter leveraging the seasonally extended demand for wood preservatives and the cold sterilization agent Velcorin. Commissioning of the hydrazine hydrate plant in Weifang, China in July 2006 reinforced the position of the Functional Chemicals business unit in the fast-growing Asian market. As predicted in the previous interim reports, heightened competition and a drop in demand resulting from some customers' closures of production facilities led to a decline in sales of the Rubber Chemicals business unit.

The Performance Chemicals segment's EBITDA pre exceptionals fell by 15.8% to €48 million. Earnings in the Rubber Chemicals business unit decreased due to the difficult market environment and planned maintenance downtimes at the Antwerp and Brunsbüttel sites. The same applied with regard to the Bitterfeld site of the Ion Exchange Resins business unit, where earnings were also held back by project deferrals. Sales in the Textile Processing Chemicals business unit developed well (see also Events after the Balance Sheet Date, page 9). Here, the restructuring carried out in the past led to lower functional costs and higher earnings. Thanks to the positive performance of the Material Protection Products business unit and to price increases by the Leather business unit, the segment's EBITDA margin pre exceptionals declined by only 0.5 percentage points, to 11.2%.

The €1 million in exceptional items in this segment in the prior-year quarter comprised expenses incurred in connection with the settlement of antitrust investigations in the Rubber Chemicals business unit.

Corporate Center, Services, Non-Core Business, Reconciliation

Corporate Center, Services, Non-Core Business, Reconciliation	Q3 2005	Q3 2006	Change	9M 2005	9M 2006	Change
	€ million	€ million	in %	€ million	€ million	in %
Sales	59	28	(52.5)	177	86	(51.4)
EBITDA pre exceptionals	(17)	(26)	(52.9)	(88)	(94)	(6.8)
EBITDA	(145)	(42)	71.0	(216)	(137)	36.6
Operating result (EBIT) pre exceptionals	(20)	(33)	(65.0)	(101)	(114)	(12.9)
Operating result (EBIT)	(152)	(50)	67.1	(235)	(158)	32.8
Capital expenditures*	1	6	**	9	7	(22.2)
Depreciation and amortization	7	8	14.3	19	21	10.5

* intangible assets and property, plant and equipment
** change of more than 100%

The €17 million in exceptional charges taken in this segment in the third quarter of 2006 related primarily to the extensive restructuring activities and portfolio adjustments already initiated in the previous year. These charges mainly comprised personnel adjustment costs, expenses for closures or partial closures of facilities, and costs for the preparation and execution of corporate transactions. Of the total exceptional charges, €1 million was attributable to asset write-downs. The transformation process initiated by the Board of Management involves a Group-wide, cross-segment program of asset consolidations, process improvements and portfolio adjustments. Since it is therefore not possible to allocate the related expenses accurately among the operating segments, they are reflected here as in fiscal 2005.

Financial Condition

Balance sheet structure The LANXESS Group's total assets as of September 30, 2006 amounted to €4,224 million, down slightly from €4,341 million as of December 31, 2005. Non-current assets declined by 6.7% to €1,712 million. The decrease – mainly in property, plant and equipment – was related to the portfolio adjustments and the fact that capital expenditures were below the level of depreciation and amortization. The ratio of non-current to total assets was virtually unchanged at 40.5%.

Current assets as of September 30, 2006 amounted to €2,512 million, only 0.2% more than on December 31, 2005. Inventories were 2.9% higher, while trade receivables declined by 7.6%. Adjusted for currency and portfolio effects, inventories were 9.4% higher because of the rise in raw material and energy costs, certain seasonal effects, and the comparatively low level of inventories at the end of last year due to delivery problems experienced by a North American supplier. Adjusted for currency and portfolio effects, trade receivables were virtually unchanged from the end of 2005. Liquid assets totaled €182 million at the end of the third quarter, up 33.8% from December 31, 2005. As of September 30, 2006, current assets accounted for 59.5% of total assets.

Equity, including minority interests, rose by 14.1% from December 31, 2005, to €1,433 million on September 30, 2006, in light of the positive net earnings. The equity ratio was 33.9%, against 28.9% at the end of 2005.

Non-current liabilities shrank by 1.6% to €1,550 million. The ratio of non-current liabilities to total assets, at 36.7%, was almost unchanged from December 31, 2005. Current liabilities declined by 17.8% to €1,241 million. Trade payables fell by 20.5% to €552 million due to seasonal factors and the divestments of the Fibers and Paper business units. The 9.5% decline in current provisions was due mainly to the utilization of provisions for restructuring measures, bonus payments, and payments relating to the settlement of litigation involving rubber products. Current financial liabilities were reduced by 62.2% to only €65 million due to the repayment in full of the short-term bank loans drawn down as of December 31, 2005. The ratio of current liabilities to total assets was further reduced to 29.4% as of September 30, 2006, from 34.8% on December 31, 2005.

Liquidity and capital resources Cash flow from operating activities in the first nine months of 2006 was €246 million, down €112 million from the prior-year period. While pre-tax income was significantly higher at €292 million, the increase in working capital compared to December 31, 2005 resulted in a cash outflow of €218 million. Operating cash flow was affected by one-time payments of around €140 million due to the utilization of provisions set up at the end of 2005 for restructuring projects, antitrust settlements and bonus payments.

With respect to investing activities, there was a cash outflow of €47 million, against a €145 million outflow in the first nine months of 2005. Cash inflow from sales of subsidiaries and other businesses in the period to September 30, 2006, totaled €108 million and related principally to the divestments of the Fibers and Paper business units and iSL-Chemie. In the second quarter there was a €17 million cash outflow for financial assets. This consisted of an equalization payment related to the prior-year loss of Bayer Industry Services GmbH & Co. OHG. Disbursements for additions to property, plant and equipment and intangible assets came to €147 million, which was less than the €188 million in depreciation and amortization. The largest share of capital expenditures in the first nine months of 2006 was made in the Performance Rubber and Performance Chemicals segments, particularly in the Butyl Rubber business unit in Sarnia, Canada, and the Functional Chemicals business unit in Weifang, China. Significant capital spending also took place in the Engineering Plastics segment in Krefeld-Uerdingen, Germany.

Regarding financing activities, there was a cash outflow of €150 million to repay loans, and a €28 million outflow for interest expense and other disbursements related to non-operating activities. The greater part of the interest expense was accounted for by the €500 million bond, maturing in 2012, that was issued by LANXESS Finance B.V. in the previous year.

Cash and cash equivalents as of September 30, 2006, at €173 million, were €46 million above the level of year end 2005. Net financial debt as of September 30, 2006 was €503 million, down 26.0% from the €680 million reported as of December 31, 2005. This decrease in the first nine months of 2006 again reflects the LANXESS Group's strict capital discipline.

In September 2006, an international bank consortium extended the €1.25 billion credit facility arranged in 2005 by one year. The conditions for this credit line, which now runs through October 2011, are unchanged. The facility serves the LANXESS Group as a long-term liquidity back-up and is not currently drawn upon.

Outlook LANXESS continues to expect that the global economic mood will remain positive in the fourth quarter of fiscal 2006, providing a conducive business environment for the chemical industry. Risks are inherent in the political situation in various trouble spots around the world. Even if crude oil prices have fallen slightly in recent weeks, those for petrochemical feedstocks and energy remain high and volatile. LANXESS will continue to factor this into its pricing.

In light of the positive business trend in the first nine months of 2006 and the economic expectations outlined above, LANXESS confirms the earnings guidance it already gave for the full year. The Group thus continues to anticipate an increase in EBITDA pre exceptionals to between €660 million and €680 million. On-schedule implementation of the initiated restructuring is expected to contribute to this result. In light of its consistently applied "price before volume" strategy, the LANXESS Group also continues to anticipate only moderate growth in sales from continuing operations.

Capital expenditures in fiscal 2006 will be at the upper end of the €250 million to €270 million range and thus above the previous year's figure. As in the past, significant expenditures for property, plant and equipment will be made in the fourth quarter of the fiscal year.

Events after the Balance Sheet Date On November 10, 2006, LANXESS signed an agreement to divest its textile processing chemicals business. All the activities of the Textile Processing Chemicals (TPC) business unit outside of North America are to be acquired by Dutch investor Egeria and business unit management. The included business has sales of about €130 million and employs some 330 people. The purchase price is €54 million. Closing of the transaction is expected by the end of the year. With respect to the North American activities of TPC, other options are being examined.

LANXESS GROUP INCOME STATEMENT

	Q3 2005		Q3 2006		9M 2005		9M 2006	
	€ million	in % of sales	€ million	in % of sales	€ million	in % of sales	€ million	in % of sales
Sales	**1,776**	**100.0**	**1,691**	**100.0**	**5,364**	**100.0**	**5,278**	**100.0**
Cost of sales	(1,400)	(78.8)	(1,329)	(78.6)	(4,106)	(76.5)	(4,048)	(76.7)
Gross profit	**376**	**21.2**	**362**	**21.4**	**1,258**	**23.5**	**1,230**	**23.3**
Selling expenses	(210)	(11.8)	(182)	(10.8)	(642)	(12.0)	(585)	(11.1)
Research and development expenses	(24)	(1.4)	(23)	(1.4)	(78)	(1.5)	(67)	(1.3)
General administration expenses	(64)	(3.6)	(58)	(3.4)	(206)	(3.8)	(186)	(3.5)
Other operating income	47	2.6	26	1.5	94	1.8	171	3.2
Other operating expenses	(179)	(10.1)	(40)	(2.4)	(287)	(5.4)	(226)	(4.3)
Operating result (EBIT)	**(54)**	**(3.0)**	**85**	**5.0**	**139**	**2.6**	**337**	**6.4**
Income from investment in associate	(5)	(0.3)	(3)	(0.2)	3	0.1	7	0.1
Income from other affiliated companies	1	0.1	0	0.0	1	0.0	1	0.0
Other interest and similar income	3	0.2	2	0.1	6	0.1	6	0.1
Interest and similar expenses	(12)	(0.7)	(8)	(0.5)	(38)	(0.7)	(25)	(0.5)
Other financial income and expenses – net	(12)	(0.7)	(17)	(1.0)	(67)	(1.2)	(34)	(0.6)
Financial result	**(25)**	**(1.4)**	**(26)**	**(1.5)**	**(95)**	**(1.8)**	**(45)**	**(0.9)**
Income before income taxes	**(79)**	**(4.4)**	**59**	**3.5**	**44**	**0.8**	**292**	**5.5**
Income taxes	31	1.7	(21)	(1.2)	3	0.1	(93)	(1.8)
Income after taxes	**(48)**	**(2.7)**	**38**	**2.2**	**47**	**0.9**	**199**	**3.8**
of which attributable to minority stockholders	9	0.5	2	0.1	10	0.2	4	0.1
of which attributable to LANXESS AG stockholders (net income)	(57)	(3.2)	36	2.1	37	0.7	195	3.7
Earnings per share (€)	**(0.67)**		**0.43**		**0.44**		**2.31**	

LANXESS GROUP BALANCE SHEET

	December 31, 2005	September 30, 2006
€ million		
ASSETS		
Intangible assets	53	47
Property, plant and equipment	1,526	1,444
Investment in associate	22	37
Investments in other affiliated companies	4	6
Non-current financial assets	48	20
Deferred taxes	103	73
Other non-current assets	79	85
Non-current assets	**1,835**	**1,712**
Inventories	1,068	1,099
Trade receivables	1,065	984
Current financial assets	37	44
Other current assets	200	203
Liquid assets	136	182
Current assets	**2,506**	**2,512**
Total assets	**4,341**	**4,224**
EQUITY AND LIABILITIES		
Capital stock and capital reserves	889	889
Other reserves	748	685
Net income (loss)	(63)	195
Accumulated other comprehensive loss	(335)	(355)
Equity attributable to minority interest	17	19
Equity	**1,256**	**1,433**
Provisions for pensions and other post-employment benefits	497	513
Other non-current provisions	302	295
Non-current financial liabilities	644	620
Non-current tax liabilities	26	36
Other non-current liabilities	32	26
Deferred taxes	75	60
Non-current liabilities	**1,576**	**1,550**
Other current provisions	401	363
Current financial liabilities	172	65
Trade payables	694	552
Current tax liabilities	27	56
Other current liabilities	215	205
Current liabilities	**1,509**	**1,241**
Total equity and liabilities	**4,341**	**4,224**

LANXESS GROUP STATEMENT OF CHANGES IN EQUITY

€ million	Capital stock and capital reserves	Other reserves	Net income (loss)	Accumulated other comprehensive loss		Equity attributable to LANXESS AG stockholders	Equity attributable to minority interest	Total
				Currency translation adjustment	Derivative financial instruments			
December 31, 2004	**836**	**896**	**(12)**	**(375)**	**6**	**1,351**	**14**	**1,365**
Dividend payments						0	(2)	(2)
Allocation to retained earnings		(12)	12			0		0
Exchange differences				39		39		39
Other changes in equity	211	(235)			2	(22)	(5)	(27)
Net income			37			37	10	47
September 30, 2005	**1,047**	**649**	**37**	**(336)**	**8**	**1,405**	**17**	**1,422**
December 31, 2005	**889**	**748**	**(63)**	**(334)**	**(1)**	**1,239**	**17**	**1,256**
Dividend payments						0	(1)	(1)
Allocation to retained earnings		(63)	63			0		0
Exchange differences				(17)		(17)	(1)	(18)
Other changes in equity					(3)	(3)		(3)
Net income			195			195	4	199
September 30, 2006	**889**	**685**	**195**	**(351)**	**(4)**	**1,414**	**19**	**1,433**

LANXESS GROUP CASH FLOW STATEMENT

€ million	9M 2005	9M 2006
Income before income taxes	**44**	**292**
Depreciation and amortization	217	188
Income from investment in associate	(3)	(7)
Gains on retirements of property, plant and equipment	(2)	(1)
Losses from non-operating activities	61	17
Income taxes	(25)	(34)
Change in inventories	(11)	(100)
Changes in trade receivables	56	3
Changes in trade payables	(206)	(121)
Changes in other assets and liabilities	227	9
Net cash provided by operating activities	**358**	**246**
Cash outflow for additions to intangible assets, property, plant and equipment	(151)	(147)
Cash outflow relating to financial assets	0	(17)
Cash inflow from sales of intangible assets, property, plant and equipment	6	2
Cash inflows from sales of subsidiaries and other businesses	0	108
Change in cash and cash equivalents due to changes in scope of consolidation	(5)	0
Interest and dividends received	5	7
Net cash used in investing activities	**(145)**	**(47)**
Dividend payments to minority stockholders	(2)	(1)
Proceeds from borrowings	607	9
Repayments of borrowings	(696)	(130)
Interest paid and other financial disbursements	(71)	(28)
Net cash used in financing activities	**(162)**	**(150)**
Change in cash and cash equivalents from business activities	**51**	**49**
Cash and cash equivalents as of January 1	72	136
Other changes in cash and cash equivalents	4	(3)
Cash and cash equivalents as of September 30	**127**	**173**
Marketable securities and other instruments	0	9
Liquid assets as per balance sheet	**127**	**182**

SEGMENT AND REGION DATA

Key Data by Segment

Third Quarter	Q3 2005	Q3 2006	Q3 2005	Q3 2006	Q3 2005	Q3 2006
€ million	Performance Rubber		Engineering Plastics		Chemical Intermediates	
Sales	414	450	441	411	373	374
EBITDA pre exceptionals	39	53	14	25	55	64
EBITDA margin pre exceptionals	9.4%	11.8%	3.2%	6.1%	14.7%	17.1%
EBITDA	35	53	14	25	55	64
Segment result/EBIT pre exceptionals	22	36	6	17	41	48
Segment result/EBIT	18	36	3	17	39	48
Capital expenditures	15	22	7	16	10	11
Depreciation and amortization	17	17	11	8	16	16

First Nine Months	9M 2005	9M 2006	9M 2005	9M 2006	9M 2005	9M 2006
€ million	Performance Rubber		Engineering Plastics		Chemical Intermediates	
Sales	1,238	1,336	1,303	1,292	1,168	1,163
EBITDA pre exceptionals	165	186	63	81	179	210
EBITDA margin pre exceptionals	13.3%	13.9%	4.8%	6.3%	15.3%	18.1%
EBITDA	159	185	63	81	179	210
Segment result/EBIT pre exceptionals	117	136	38	57	131	162
Segment result/EBIT	111	135	21	57	120	162
Capital expenditures	39	47	21	31	37	28
Depreciation and amortization	48	50	42	24	59	48
Number of employees (September 30)	3,119 [1]	2,996	3,479 [1]	2,832	3,353 [1]	3,690

[1] December 31, 2005

Key Data by Region

Third Quarter	Q3 2005	Q3 2006	Q3 2005	Q3 2006	Q3 2005	Q3 2006
€ million	EMEA (excluding Germany)		Germany		Americas	
Sales by market	578	528	382	400	494	445
Proportion of Group sales	32.6%	31.2%	21.5%	23.7%	27.8%	26.3%

First Nine Months	9M 2005	9M 2006	9M 2005	9M 2006	9M 2005	9M 2006
€ million	EMEA (excluding Germany)		Germany		Americas	
Sales by market	1,878	1,731	1,172	1,228	1,447	1,397
Proportion of Group sales	35.0%	32.8%	21.8%	23.3%	27.0%	26.4%
Number of employees (September 30)	3,290 [1]	3,195	9,410 [1]	8,457	3,694 [1]	3,211

[1] December 31, 2005

Q3 2005	Q3 2006	Q3 2005	Q3 2006	Q3 2005	Q3 2006
Performance Chemicals		Corporate Center, Services, Non-Core Business, Reconciliation		LANXESS	
489	428	59	28	1,776	1,691
57	48	(17)	(26)	148	164
11.7%	11.2%	–	–	8.3%	9.7%
56	48	(145)	(42)	15	148
39	34	(20)	(33)	88	102
38	34	(152)	(50)	(54)	85
19	11	1	6	52	66
18	14	7	8	69	63

9M 2005	9M 2006	9M 2005	9M 2006	9M 2005	9M 2006
Performance Chemicals		Corporate Center, Services, Non-Core Business, Reconciliation		LANXESS	
1,478	1,401	177	86	5,364	5,278
173	187	(88)	(94)	492	570
11.7%	13.3%	–	–	9.2%	10.8%
171	186	(216)	(137)	356	525
124	142	(101)	(114)	309	383
122	141	(235)	(158)	139	337
45	34	9	7	151	147
49	45	19	21	217	188
4,743 [1)]	4,269	3,588 [1)]	3,106	18,282 [1)]	16,893

Q3 2005	Q3 2006	Q3 2005	Q3 2006
Asia-Pacific		LANXESS	
322	318	1,776	1,691
18.1%	18.8%	100.0%	100.0%

9M 2005	9M 2006	9M 2005	9M 2006
Asia-Pacific		LANXESS	
867	922	5,364	5,278
16.2%	17.5%	100.0%	100.0%
1,888 [1)]	2,030	18,282 [1)]	16,893

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2006

Recognition and Valuation Principles Like the consolidated financial statements as of December 31, 2005, the unaudited consolidated interim financial statements as of September 30, 2006 were prepared in accordance with the standards of the International Accounting Standards Board (IASB), London, U.K. Reference should be made as appropriate to the notes to the consolidated financial statements as of December 31, 2005. IAS 34 (Interim Financial Reporting) has been applied in addition.

Scope of Consolidation The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG and all material domestic and foreign subsidiaries. Dorlastan Fibers LLC, Bushy Park, United States, was divested effective February 28, 2006 and has been excluded from the consolidation. The operations of the Saltigo (formerly Fine Chemicals) business unit were hived down with economic effect from January 1, 2006 from LANXESS Deutschland GmbH to Saltigo GmbH (formerly Dritte LXS GmbH). GVW Garnveredelungswerke Goch GmbH was merged with LXS Dormagen Verwaltungs GmbH (formerly Dorlastan Fibers GmbH). Since the assets concerned were transferred exclusively between fully consolidated Group companies, these transactions did not lead to any changes in the assets and liabilities reported in the consolidated interim financial statements.

Fifty-eight companies were fully consolidated into the financial statements of the LANXESS Group as of September 30, 2006. In addition, unchanged from December 31, 2005, Chrome International South Africa (Pty) Ltd. was included by proportionate consolidation, while Bayer Industry Services GmbH & Co. OHG was included at equity.

The divestments of the Fibers business unit effective February 28, 2006 and of the Paper business unit effective March 31, 2006 did not lead to any material changes in the assets and liabilities of the LANXESS Group reflected in the consolidated interim financial statements as of September 30, 2006.

The results of the Fibers and Paper business units up to their respective divestment dates – February 28, 2006 and March 31, 2006 – are reflected in net income of the Group.

Changes in Risk Profile LANXESS bears 30% of the costs of antitrust and civil law actions relating to certain rubber products under an agreement with Bayer in connection with the spin-off. As a result, LANXESS incurred €2 million in expenses for external consultants in the first nine months of fiscal 2006, which are reported as exceptional items. Disbursements of €20 million were made in the third quarter out of the provisions set up as of December 31, 2005 relating to this litigation, bringing total disbursements through September 30, 2006, to €50 million. The €100 million limit on LANXESS AG's pro-rata reimbursements of expenses related to the rubber products litigation has been exhausted.

Employees The LANXESS Group had 16,893 employees as of September 30, 2006, compared with 18,282 as of December 31, 2005. The reduction of 1,389 includes the employees who left the Group in connection with the divestments of the Fibers and Paper business units. Positions were also eliminated in the course of the global restructuring, particularly in Germany and the Americas region.

Earnings per Share Earnings per share for the third quarter and first nine months of fiscal 2005 and 2006 were calculated by dividing Group net income/loss by the 84,620,670 shares admitted to trading on the Frankfurt Stock Exchange.

Contact
Please do not hesitate to contact us if you have any questions or comments.

Contact in Corporate Communications
Christoph Sieder
Head of Corporate Communications
Tel. +49 (0) 214 30 33333
E-mail: mediarelations@lanxess.com

Contact in Investor Relations
Michael Pontzen
Head of Investor Relations
Tel. +49 (0) 214 30 33333
E-mail: ir@lanxess.com

Masthead
LANXESS AG
51369 Leverkusen
Germany
Tel. +49 (0) 214 30 33333
www.lanxess.com

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Kirchhoff Consult AG, Hamburg, Germany

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Claudia Kempf, Wuppertal, Germany

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March 20, 2007	Publication of 2006 Annual Report
May 9, 2007	Interim Report Q1 2007
May 31, 2007	3rd Annual Stockholders' Meeting
August 16, 2007	Interim Report Q2 2007
November 14, 2007	Interim Report Q3 2007

PUBLISHER

LANXESS AG
51369 Leverkusen
Tel. +49 (0) 214 30 33333
www.lanxess.com

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